Chapter II

SIGNIFICANCE OF AGRICULTURAL PRICES IN A DEVELOPING ECONOMY

Market Structure of Agricultural Products:

In a competitive economy price mechanism is an important factor which regulates the various economic activities. The main role of price mechanism is to determine the prices of products by supply and demand. The general theory that the "Prices are determined by demand and supply" is also applicable to the market of agricultural products, where the prices of agricultural products are determined by demand and supply. It means that the agricultural market is a competitive market. What is the nature of competition in agricultural market? Is there perfect competition or imperfect competition? Indeed, the agricultural market is neither perfectly competitive nor imperfect market. But it is near about perfectly competitive market.
A large number of buyers and sellers is a specific character of perfect competition. This characteristic is found in agricultural market. The numbers of farmers as sellers and buyers of agricultural products are large in this market. The aggregate supply of an agricultural product may not be affected by the supply of any one farmer. The price level also may not increase or decrease with decreasing or increasing supply of agricultural product by any one farmer. It means the significance of a single farmer is negligible. In the same way, any change in demand for agricultural product of a particular buyer may not affect the aggregate demand or its price in the market. The demand for an agricultural product at a micro level is elastic but the total market demand is inelastic. The condition of ideal price system is considerably fulfilled, where the producers can maximise their profit by adjusting their output at a level of marginal cost equal to price.

But it is difficult to say that there is perfect competition in agricultural market. Another condition of perfect competition is that all the buyers and sellers have a knowledge about market conditions.
e.g., trend of demand and supply, price level, etc. They take their market decisions on the basis of this knowledge. But the perfect knowledge of market and uniformity in the prevailing prices is possible in case of all the buyers and sellers of a commodity that are located at a particular space and having a business at a single point of time. This "perfect knowledge" condition is most difficult to found in agricultural market where buyers and sellers are scattered over a vast territory. Further, inter-regional price differentiation is a salient feature of agricultural market. Sometimes this price differentiation between the regions is greater than the transportation cost. It is because of the lack of perfect knowledge as well as the defective marketing system. It indicates that the agricultural market is not a perfectly competitive market.

Homogeneity of products is another feature of perfect competition. But this condition is also not seen in agricultural market. The agricultural products have physical differences in different lots of the same commodity. The product differentiations are on account of the colour, shape, hardness, moisture, maturity, etc. There are number of grades and standards in any
agricultural product, and therefore there is no uniformity in prices. It means due to absence of homogeneity in products it is difficult to say that the agricultural market is a perfectly competitive market.

A statement given below also indicates the same difficulty, "In India there is no such thing as an average price of rice. Any examination of rice prices is handicapped by several factors such as existence of enormous number of varieties, the complexities of consumers' preferences, the localisation of production types, the localised nature of demand, and non-existence of any representative types or standards of quantity".

Demand for and Supply of Agricultural Products:

The process of price determination of agricultural products is not different from that of other products. The prices are determined by the demand and supply in competitive market. This process is completed through the competition of buyers and sellers. Prices are fixed at a point of equilibrium between demand and supply of any agricultural product. It means the quantity demanded by buyers is exactly equal to the
quantity sold by sellers at that price. As per the market rule any change in demand or supply results in a change in price level.

The nature of demand and supply of agricultural products is different from the nature of demand and supply of non-agricultural products. The demand for any individual farm product is elastic which changes with the change in price, but the aggregate market demand for farm products is inelastic. Because the period may be boom or depression, prices may be higher or lower, the demand for agricultural product mainly of foodgrains is stable. Majority of farm products fall in the category of foodgrains. So this makes the demand for agricultural products inelastic.

Mrs. S. Choudhary also pointed out that the demand for agricultural products is less elastic to income. Initially, up to some extent, demand for agricultural products mainly foodgrains increases with the increase in income. But beyond a certain level demand for food decreases with relative increase in income. This is nothing but the Engle’s law of consumption or fundamental psychological law stated by Keynes.
The supply of agricultural products depends mainly on such factors which are mostly beyond the control of farmers. It means that the supply of agricultural products is uncertain and varies from year to year, due to vagaries of weather and rainfall. Due to this the supply of agricultural products is less elastic.

Both demand and supply of agricultural products are inelastic. According to Cobweb theorem, if intensity of inelasticity of supply and demand is the same then there will be continuous fluctuations. If elasticity of supply is less than elasticity of demand then movement will be towards equilibrium. In fact, in agriculture, the elasticity of supply is greater than the elasticity of demand, when the movements go away from equilibrium. Due to this agriculture becomes more unstable.

The nature of demand for agricultural products, mainly foodgrains and raw materials, is stable and the supply is widely fluctuating from year to year and within a year also. There is always disequilibrium in demand and supply in agriculture which is a general
phenomenon. The nature of demand, supply and output of agricultural products generate an inherent instability in agriculture.

The influence of demand and supply in the process of price determination of agricultural products differ in short-run and long-run periods. Over a long period supply and demand may equally affect the prices. But during the short period the relation between demand and supply may be abnormal. Demand for agricultural products is scattered all over the year, which is stable. On the other side, the supply is unevenly distributed and concentrated only in harvest period, which is uncertain. In short period, in the process of price determination, supply is most dominant than the demand. During a year, agricultural prices and mainly foodgrain prices are determined predominantly by the size of harvest and price elasticity of consumers' demand.

Agricultural Prices Differ from Industrial Prices:

The prices of both agricultural and industrial products are determined by demand and supply in the market. The agricultural product and it's price have
some special characteristics, which industrial products does not possess. So it is difficult to follow the same policy for both the sectors. There are some fundamental differences in agriculture and industry, which indicate the need of a special price policy for each sector. Agricultural price system differs from industrial prices on the following grounds.

One of the basic differences between agriculture and industry is that industrial production process is a continues process. The adjustment of output to change in prices of inputs is relatively easy. It is also possible to adjust the output with a change in demand situation. H.N. Pathak has pointed out that a firm and farm have a considerable disparity in response to fall in prices. The firm can immediately adjust its output to falling prices. It means the entrepreneur can contract the production by reducing labour power and working hours. He can avoid the loss by cutting down various expenditures. As well as he can increase the production by expanding the plant as per need. All this is not possible in case of agriculture.
In industry, there is uniformity in production process for the same technology. There are some norms of input use. It is possible to keep account at every step of production process. Every activity which is involved in production process can be counted as a cost of production. There is specific relation between inputs and outputs in industry. In this situation, it is possible to change production policy to face the problem and formulate favourable policy for future. It means entrepreneur can protect himself easily. But in case of agriculture, there is no uniformity in agricultural practices which considerably differ from region to region and also from farm to farm within a region. Agricultural sector is dominated by nature. The relation between input and output is uncertain. Weather and rainfall are the important factors as determinants of output. Mostly the use of inputs depends on the weather conditions. There is high uncertainty in agriculture where it is difficult to avoid the loss.

In industry value paid to land is recorded in cost of production which is not easy in case of agriculture. There is no market for land. We may consider rented value of land, but it is not determined
by its supply and demand. It is determined by customs and institutional forces. Further, rent is determined by prices, when prices rise, they raise the rental value. On the other side, rent is a part of cost of production. It is a determinant of price level. So it is difficult to say that the prices are determined by rent or rent is determined by prices.

Capital cost is also well defined and easily quantified in industry which is difficult in agriculture. The evaluation of capital is complicated in agriculture where quality differences in different forms of capital are present. Optimum utilisation of capital equipments may be possible in industry, whereas the capacity of farm machinery is not consistent to the size of the farm.

Demand for labour as a factor of production is regular in industry. The expenditure on labour force is also regular and counted in cost of production. In case of agriculture, the demand for labour is temporary. Hired labour is required only for some operations e.g., ploughing, sowing, weeding, etc. Most of the agricultural operations are performed by family labour.
There are different opinions on the valuation of family labour as a cost of production.

It is also clear that price analysis is relatively easy in industry because it is an organised sector. Entrepreneur can maintain the proper accounts which gives detailed information regarding expenditure under various heads e.g., wages, interest, expenditure on raw materials, rent, total profit, net profit, etc. This makes possible to calculate the return on capital. In agricultural sector such data is not available. So it is difficult to work out the return on capital. Further, in agriculture cost of production of a unit is unstable from one season to another. Because the yield varies from season to season which depends mainly on weather conditions.

One thing is clear that the fluctuations in agricultural prices are wide and violent than the industrial prices. Because it is difficult to adjust the supply with change in demand. Secondly, the relation between prices, cost and output differs in agriculture from that of industry.
Agricultural Prices as a Basic Element of Economy

National economy of India is still dominated by agriculture. Because agriculture commands a larger part of the total national income. There is close relation between agricultural sector and whole national economy. Any change which takes place in agricultural sector results into a change in the whole economy. So the prices of agricultural products and mainly food-grain prices play a key role not only in agricultural sector but from the point of view of whole national economy. According to a number of researchers, agricultural prices play a role of price setters. Many of them specifically stated that foodgrain prices and further cereal prices are the price setters in the economy.

Parthasarathy and Mudahar pointed out that whole economy of the country is affected by agricultural prices through the impact of (1) change in foodgrains production and non-foodgrain production, (2) change in domestic term of trade between agricultural products and non-agricultural products, (3) impact on labour cost and its effects on overall cost structure, and (4) change in
the pattern of income distribution. Agricultural prices play a dominant role in economy not only because it commands a larger share in national income but its contribution to change in over all prices is more than the non-agricultural prices.

According to N.C.A.E.R. study stable price level in agricultural sector held a key role in economy. This is not because agricultural sector provides the raw material for industrial sector but also more than 50 per cent of consumption expenditure of people goes to purchase foodgrains.

In the explanation of importance of agricultural prices A.S. Kahlon has pointed out that in developing countries like India, where 50 per cent of national income is shared by agricultural sector, any measure adopted to regulate the agricultural prices affects the general price level. On the other hand, a measure taken to control general price level has effects on agricultural prices. It means agricultural prices have a basic and sensitive relation to whole economy.
In case of Indian economy we have come to following conclusion. "During the second and third five year plan period, the failure of agricultural sector to deliver the goods would spell disaster to the entire planning process ........ unless there is development in agriculture and increase in income in agricultural sector, per capita income in the country as a whole can not increase". It reveals that agriculture is a basic factor to the development of national economy.

Functions of Agricultural Prices:

M.L. Dantwala pointed out two main functions of prices. Firstly, prices allocate the resources to their best possible use and secondly, they determine the relative income of different factors of production.

According to J.W. Mellor, agricultural prices perform mainly three functions:

1. Allocation of resources,
2. Distribution of income, and
3. Influence on capital formation.
A change in prices of agricultural commodities have a quite significant effect on allocation of land under different crops. If price of any agricultural commodity has steeply risen, farmers will bring larger area under that particular crop for the purpose of increase in income. So the agricultural prices is a measure to have proper allocation of land and resources and to have a balance in production of different agricultural commodities according to objectives of agricultural policy.

Agricultural prices, as an allocator of resources, give signal to producers and consumers regarding the production and consumption. Changing prices of agricultural products have effects on the allocation of financial resources among agricultural commodities by farmers and allocation of expenditure on consumption by consumers.

Agricultural prices have somewhat peculiar effects on income distribution among the various sectors of the economy. Change in agricultural prices affects the pattern of income distribution between agricultural sector and non-agricultural sector. If the prices of
agricultural commodities rise relatively more to non-agricultural products, which results in larger proportion of national income will move to agricultural sector and vice-versa. In addition, agricultural prices have effects on the income distribution among various groups of society. e.g., high income group and low income group within a sector.

Capital formation and investment pattern are also affected by agricultural prices. The increase in agricultural prices will induce farmer to invest more in agriculture and enhance capital accumulation which affects agricultural technology.

There are some other functions which are performed by agricultural prices. Prices play a more important role in signalling to government the need for greater investment in roads, power supply extension, research, investment in various sectors to develop infrastructure and to change agricultural technology.

Agricultural prices are important from the point of view of standard of living of various classes of society as consumers. Because change in agricultural
prices have different types of effects on standard of living of these various classes. An increase in agricultural prices decreases the standard of living of consumers and mostly price vulnerable people of society get seriously affected. No doubt with an increase in agricultural prices some landlords and big traders consume financial benefits.

Marketable surplus as well as earning of foreign exchange also depend on agricultural prices. If agricultural prices have increased, farmers will sell more quantity in market. It is also possible to export more quantity, due to larger marketed surplus, in the international market and earn foreign exchange. Therefore, it is most important to have such level and structure of agricultural prices that satisfy all these various aspects of the economy.

**Nature of Price Problem of Agricultural Products:**

There are two aspects to the price problem of agricultural products. One aspect is, are the prices of agricultural products rational and incentives? prices
are said to be rational if they are related to cost of production. Agricultural prices must be rational for the reason that the farmers will have an incentive to invest more and to adopt new agricultural technology and thereby to increase their production and productivity. In other words, we can say that the prices of agricultural products must be oriented in such a way that the return may cover the risk of investment and also raise enough resources for the farmer to encourage him to produce more and adopt improved methods of cultivation and efficient combination of inputs. M.V. Nadkarni also points out that agricultural prices should be at such a level where they induce producers to produce more and increase capital formation on the farms on one hand, and on the other promote to saving in economy and protect the consumers' standard of living.

Another aspect of this problem is the arbitrary variations in the prices of agricultural products. Both of these aspects are the most important issues to hold a deep study and separate research work.

In the absence of incentive and stable prices the producers will have to suffer the penalty of
receiving uneconomic prices in return for his enterprises in increasing the productivity of his land.

Arbitrary price variations is a serious problem to farmers. The farmers have to bear economic loss due to falling prices, and gain goes in the pocket of the middle man when prices are higher. This study has concentrated its attention mainly to study the seasonal variations in the prices of agricultural products and its effects on area. So many researchers have emphasised on this aspect of agricultural prices in their studies. Mrs. Rajbans Kaur has pointed out that in the free market economy the prices of agricultural commodities are unexpected and fluctuated violently, which have adverse effects on the pattern and volume of agricultural production, which is more true for Indian agriculture.

There are two types of price variations, namely, spatial price variation and temporal price variation. The spatial price variations are based on the element of distance and the temporal price variations are based on the time element. In case of agricultural products the place of their production and the place where they are usually sold are different. Due
to this agricultural commodities require some costs to shift them to the place of market from it's production place, which is known as transportation cost. This transportation cost may differ according to distance between the production place and consumers market. Due to this, transportation cost and allied incidental costs, the prices may vary from market to market. But under the perfect competition the price differences between the markets should not be higher than the cost of transport and other related necessary expenditure. This is known as spatial market integration, where the prices of products in a market are responsive to change in prices in another market. The difference in the prices between the markets is equal to the transportation and handling costs.

On the other hand, the supply of agricultural products is seasonal and its demand is spread throughout the year. So it is necessary that somebody must store the agricultural products to meet the demand for them throughout the year. This kind of market service incurs some cost called the storage cost. Due to these costs the prices of agricultural products may vary at different points of time during a year. This kind of
variations are called temporal price variations. Indeed it is not possible to remove fully the spatial and temporal price variations. Because these services (i.e. transportation and storing) are the part of marketing process. But the problem is whether the temporal price variations or spatial price variations are rational. By rational price variations we mean that the prices must vary only by necessary transportation and handling costs between the areas and according to storage costs between the periods.

But the inter-market price differences in India, sometimes, tend to be greater than the transportation cost, partly because of the lack of perfect knowledge and partly due to the defects in prevailing marketing system. The seasonal variations in prices are also not consistent with storage costs. The farmers mostly prefer to sell their products in village markets and early after the harvest.

Types of Temporal Price Variations:

Temporal price variations is a most significant phenomenon in Indian agriculture. The well known feature of agricultural price variations is that
the prices move downward at a minimum level in peak marketing period and increase to a maximum level in lean season. But the degree of seasonal variations differ from commodity to commodity and from time to time.

These temporal price variations require varying length of time to mature. Sometimes these price variations take place in few hours or days or weeks. Sometimes it requires seasons, years and several years also, according to changes in demand/supply and time involved in their operations. The temporal price variations are considered to be of following types.

1. Short-time Price Variations:

Due to changes in demand and supply in the short period this type of price variations take place e.g., from hour to hour, day to day, week to week, price variations. L.S. Singh has pointed out that the prices of wheat changed within a single day in grain market of Harpur. Mostly short-run price variations take place in case of perishable commodities e.g., fruits, vegetables, etc. Their prices vary within a few hours. For example, the prices of vegetables may not be stable on a whole bazaar day. The prices may be different in evening from
the early in the morning on the bazaar day in rural areas.

2. Seasonal Price Variations:

This is most important type of price variations of agricultural products. It is a general phenomenon that in any business sector there is some degree of seasonal variations in prices. For example, the price of umbrellas, raincoats, goes up in rainy season which is lower in off season. In the same way the prices of cold drinks are higher in hot season than in cold season.

This seasonal variations in prices is also known as periodic variations. Because seasonal variations have some regularity and accuracy as compared to cyclical and irregular variations. In case of above examples, every year the prices as well as demand for umbrellas or raincoats rise in rainy season and fall down in winter season. Every year the prices of cold drinks go up in summer season than in the other periods. Thus these seasonal variations have some regularity for every year. The degree of seasonal variations may differ but they occur after a specific period. So it is called
the periodic variations. It is also possible to predict about seasonal variations. Seasonal variations generally take place in short period as compared to cyclical variations. But there is not any specific definition of short period. Generally the variations which occur within a year are known as seasonal variations.

Seasonality in agricultural prices is a main characteristic of agricultural sector. The agricultural prices have different levels in different periods (e.g. harvest period, mid-period and lean period). The prices of agricultural commodities decline in harvest period due to greater arrivals of products and increase in lean period of marketing when arrivals are very low. More or less, this type of seasonal variations in agricultural prices occur every year. Though average seasonal variations represents a general tendency which may or may not be followed by changes in prices in any given year, because of changes in non-seasonal supply and demand factors. It is true that the agricultural products and foodgrains have a seasonal behaviour from one year to other. On the demand side, there are seasonal variations for individual products, but on the
whole products’ demand is probably more steady. Seasonal variations are severe on supply side on account of biological nature of agricultural production. Agricultural products, which are perishable and semi-perishable, cannot be stored for a longer period. So the farmers sell their products just after the harvest. The supply of agricultural goods increases in harvest period and prices decrease, while it declines in lean period and prices increase to higher level.

3. Annual Price Variations :

Agricultural production is mostly dependent on weather and natural climatic conditions. But weather and natural conditions are uncertain and vary from year to year. So it results into fluctuations in agricultural production every year. The production also fluctuates due to change in acreages and yield of the crops as well. The prices of agricultural products fluctuate from year to year due to uncertain nature of its production. Annual variations in prices is a most important feature of agricultural prices.
4. Secular Trend in Prices:

Besides short-time, seasonal and annual variations in prices, there occurs gradual rise or fall in prices due to change in supply and demand conditions over a long period. Smooth and regular movements in agricultural prices for a long period is called secular trend. A.E. Waugh defines "secular trend is that, irreversible movements which continue in general, in the same direction for a considerable period of time. It means secular trend reveals the long term tendency of the phenomenon under study. There is not any specific definition of the long period as it varies between the phenomena. In case of India, annual agricultural prices are fluctuating but the secular trend shows that the prices are increasing over a long period.

5. Cyclical Price Variations:

Agricultural prices are also influenced by trade cycles. Cyclical price variations are somewhat different from seasonal variations. Cyclical price variations occur in a long period than the period of seasonal variations, and are unplanned because they results from the circumstances beyond the control of the
farmers. It is said that high prices attract new farmers to produce more and as the production increases, supply also increases and prices decline. In such a situation some farmers drop out and others restrict their production. Thus production contracts and prices rise until they reach a level that again puts the cycle to move. The length of price cycle period may differ from commodity to commodity. As well as prices and production do not move in similar cycle because some times changes in prices and weather conditions are also not regular.

6. Irregular Price Variations:

Irregular price variations take place due to drought, war, heavy rainfall or any incidental factor which are not concerned with the general trend or cyclical price variations or usual annual price variations. It is impossible to predict about these variations and also difficult to control them. Some economists distinguish irregular price variations from episodic variations. But, broadly speaking, both the types of price variations are the same.
Reasons of Price Variations:

Agricultural price variation is a conspicuous phenomenon in India. The root of this kind of price variations lies in the nature of demand and supply of agricultural products. Also there are number of other factors which results in fluctuations in the agricultural prices. viz. change in monetary policy, fiscal policy, tariff policy, future price trend, transportation facilities, storage and credit facilities, processing facilities, effective marketing system, economic and political events, lack of effective price policy, etc. But wide fluctuations in agricultural prices take place mainly due to the difficulty of adjusting supply to change in demand for agricultural products. There are various factors which are responsible for variations in prices of agricultural products. Some important factors are discussed below.

1. Inelastic Nature of Demand:

The production of agricultural products takes place in a specific period of a year but the demand is spreaded all over the year. In nature the demand for
agricultural products and mainly foodgrains demand is less elastic to change in their prices. V.M. Dandekar pointed out that "Generally low price elasticity of consumers demand for foodgrains, it needs a disproportionately large rise in prices in order to restrict the demand to a somewhat smaller harvest and it needs a disproportionately large fall in prices to expand the demand to a somewhat large harvest. The market price of foodgrains is thus liable to large fluctuations from year to year, firstly because of the fluctuations in the size of the harvest and secondly because of the generally low price elasticities of demand for foodgrains.

2. Inelastic Supply of Factors of Production

Basically agricultural industry has particular features of its own which are not found in any other industry. The supply of various factors of production in agriculture is inelastic. So it is difficult to adjust the supply with change in its prices. The supply of land is limited. Virgin land requires larger expenditure. Land assumes as a capital sunk factor than any other industry. Because invested capital can not be shifted from there to some other sector. The supply of
agricultural labour is also inelastic, when the farmers work on their land themselves with their family. Many of the farmers are self-sufficient in labour as a factor of production. So the amount of labour spent on cultivation hardly shows response to change in prices of agricultural products. This situation further results in increased inelasticity of supply of agricultural commodities.

3. Agriculture is a Biological Process:

One important aspect which shows larger instability in agricultural sector than that in industrial sector is that the industrial sector cannot be affected by inherent indigenous factors as agriculture. Mostly instability in industrial sector is attributed to certain exogenous factors operating outside the immediate sphere of the industry concerned. But the fluctuations in agricultural prices and production have their own peculiarity. Supply of agricultural products is less sensitive to change in prices. Because agriculture has a biological character where human control is limited. It is very difficult for farmers to alter his programme of agricultural
production in short period. Once the process of growing of crop begins, it cannot be slowed down or speeded up during a season. It indicates that agricultural production is uncertain which depends on monsoon and its demand is relatively stable. This situation further generates wide fluctuations in agricultural prices.

4. Domination of Nature:

Agriculture mostly depends on nature which is out of human control. Schultz T.W. has also pointed out that agriculture is the mercy of nature. Droughts and duststorms, floods and frosts are manifestations of the struggle that goes on farming between man and nature. These different types of vagaries in agriculture faced by farmers involved various forms of economic risks and uncertainties. So it has been well known dictum in case of Indian agricultural problems that the vagaries of monsoon and other factors causes to greater fluctuations in production and prices of agricultural products.

5. Fixed Nature of cost of Production:

The cost of production of agricultural products has a special strategy than the cost of
production in industrial sector. The nature of production cost is almost all fixed or contracted. The rent, revenue, payment of interest, and family labour are fixed. The variable cost is only of manures, fertilisers, hired labour, seeds, etc., which is in small percentage to total cost of production. But in case of industry the proportion of variable cost is larger. So it is easy to curtail production when prices fall, which is not so easy in case of agriculture. The structure of production cost in agriculture is relatively rigid and move more slowly than the level of prices especially in times of falling prices.

6. Combination of Different Products:

Mrs. S. Chowdhary gave attention towards a different aspect of agricultural sector. Agriculture is a many industries rolled into one. It included several industries such as cereal farming, fruits, vegetables growing, dairy farming, etc. Further, it is divided according to kinds of products grown. There are some jointly produced commodities where decision regarding prices become difficult. Because separate cost of
production cannot be shown. Many times one agricultural commodity is required for several purposes and farmers find it difficult to anticipate market demand. It is due to this agricultural sector becomes more unstable.

7. Seasonal Sale of Agricultural Products:

A well known reason of arbitrary price variations of agricultural products is a seasonal sale of products. Due to economic difficulties the farmers are compelled to sale their products in harvest period. The glut of agricultural products in market at a specific period results in fall in prices and vice-versa. The supply of products to the market varies from year to year, also depending upon the production during the year. Moreover, what arrives on market is only surplus production over and above the needs of producers. One-half to 3/4 ths of total marketed quantity is sold in four months of harvest period. The fluctuations in the marketed quantity are proportionately larger than the fluctuations in the production. This is supported by the empirical study held by Mrs. P. Kamala Devi. In short, seasonality in sale of agricultural products and changes in marketed quantity are the factors which are responsible for occurrence of price variations.
B. Speculative Demand of Wholesale Traders:

V.M. Dandekar explains that the speculative demand from wholesale traders is an effective factor for seasonal price variations in producers' as well as consumers' market also. The wholesale traders buy the agricultural products from the farmers which arrive on market and stock it. Further, it is released on retail market to meet the demand of final consumers which is, more or less, steady. Demand for agricultural products from wholesale traders is for stocking, which depends on price expectation. Hence it is speculative in nature. This speculative demand of wholesale traders is destabilising in kind. So when the arrivals on the market are larger, the prices are at lower level. "It is not difficult to see that this speculative demand of wholesale traders is essentially of a destabilising in kind. When the arrivals on the market are larger and the prices are naturally low, it further decrease the prices. When arrivals are meagre and the prices are high, it pushes the prices further up. Thus the variations in the supplies of products coming to producers' market combined with speculative demand of
wholesale traders cause to wide fluctuations in prices of foodgrains. The same thing happens in retail market also. Normally, the wholesale traders should release their supplies depending upon their stock and their expectations of the next and future harvests. They vary their supplies to retail market according to their future expectations. The final consumers' demand which is price inelastic, even small variations in supplies bring about large fluctuations in final prices. Thus the operation of wholesale traders is a cause of variations in prices in producers' as well as in consumers' market. "The speculative demand for stock spreads to the producers on one hand and to the retailers and consumers on the other hand. This is equally destabilising and further accentuate the fluctuations in prices."

9. Vicious Circle between Price and Sale:

It is interesting but very serious aspect from the farmers' point of view that there is like running race between price and sales of agricultural products. It means once agricultural prices begin to move downwards, it push sales up and further price falls down. Because due to falling trend of agricultural prices the farmers cannot save much quantity by reducing his
production. But indeed the farmers attempt to increase their production and also attempt by selling larger quantity to maintain their money incomes. This operation push prices again to downwards. This is specially more true for the farmers, carrying on agriculture with family labour as a way of life rather than a business. Thus the falling trend of agricultural prices is accompanied with increased supply. Because the farmers have a loss of their real incomes in falling prices. It results in fall in the standard of living and particularly for marginal farmers, it would be difficult to meet their necessary needs. The small farmers have to bear double loss due to fall in prices. Firstly they have small quantity of output and secondly they sell it at prevailing low price level. So over the range of falling prices, farmers are either forced to produce more and/or sell more surplus to maintain their total cash incomes to meet their other financial requirements. It means "in agriculture there is the backward slopping of supply curve, that is when prices fall supply rises because farmer tries to get the same real income from the output. As the prices fall marginal utility of the last unit increases for him and farmers
fall into a vicious circle. Therefore once the prices start falling they cannot be checked easily."

**Effects of Price Variations:**

Agricultural prices are more sensitive to changes in imbalance between supply and demand than the prices of industrial products. As a result, price variations take place by dimension of time, space and form. It means prices fluctuate from time to time, from market to market, and from commodity to commodity. There are various adverse effects of this arbitrary price variations on the national economy such as effects on economic life of farmers, allocation of resources, production pattern, etc. In this connection Rogar Thomas points out that "next to the rain price changes have been the greatest enemy of the farmers.

1. Sectoral Imbalance Through Change in Term of Trade:

The degree of price variations is different from commodity to commodity which results into a change in the term of trade between foodgrains and cash crops and between agricultural products and industrial products. Allied effects of price variations are
undesired changes in allocation of resources and emergence of economic imbalance in the various sectors of economy. In many empirical studies it is found that the price variations in agricultural sector are greater than that in industrial sector. As a result, the term of trade between agriculture and industry has changed unfavourably to agricultural sector. Kahlon and Tyagi found that the term of trade has turned against agriculture. Because the degree of increase in agricultural prices lagged behind the industrial prices. The agricultural prices could not keep parity with prices of manufactures. So the industrialists become rich and on the contrary the agriculturists specially small farmers become poor. V.M. Dandekar also supports this view. He said that in India the term of trade between agriculture and rest of the economy is not attractive and favourable to agriculture. Due to this, agricultural sector cannot attract more resources and this position of term of trade has remained, more or less, unchanged from the last fifteen years. This type of disparity in price variations generate sectoral imbalance in the economy.
2. Depress the Incentive of Farmers:

Incentive of farmers to increase production is affected by variations in prices of agricultural products. If the prices of commodities vary irregularly, the producers will have very little incentive to go in its production or to expand production where it is already growing. On the other hand, stable price level of a commodity provides strong incentive to producers for increasing production by expanding the area and by adopting improved farm practices. According to K.G. Adur, a steep decline in the price of any particular crop will bring in heavy loss to the growers of that crop. This will reduce their income and dampen their spirit to produce more next year.

3. Effects on Farmers Income Level:

A large number of agriculturists in our country falls in the lowest income group and hence they are indebted. Irregular fluctuations in agricultural prices have adverse effects on the income level of these agriculturists. In the harvest period they are forced to sale their product at lower prices. As a result, their
income is kept at a minimum level. On the other side, they cannot obtain the benefit of higher prices which prevail in lean period. Because firstly they have very limited quantity of marketable surplus. Secondly, increases in agricultural prices, mainly cereal prices, raise the prices of other goods which are required to farmers for their business and to meet their needs of inputs, capital equipments, consumption articles, etc.

So the term of trade may not favour to farmers. The real income of farmers is at a relatively low level. They would gain only when prices of agricultural products are kept at a higher level as compared to that of other manufactured articles and agricultural inputs which they require.

4. Intra-sectoral Economic Imbalance:

The economic prosperity of farmers depends on variations in prices of agricultural commodities which they produce. B. Natrajan found that within agricultural sector there is a disparity in prosperity between growers of foodgrains and growers of commercial crops. He found the substantial increase in the prosperity of producers of commercial crops as compared to foodgrain...
producers. The study held by R.S. Mavinkurve also supports this view. He found that the jute cultivators in Bengal, sugarcane cultivators in Uttar Pradesh and Bihar and foodgrain cultivators all over the country have less degree of prosperity than the cotton growers of North, Western, and central India. It reveals that there is no price parity between the various agricultural commodities. It results into intra-sectoral economic imbalance. Further, B. Natraj points out that "the disparities which have noticed in the prosperity of the growers of foodgrains and commercial crops is a serious problem and if allowed to continue unchecked may have serious repercussions on the progress of grow more food efforts".

5. Adverse Effect on Small Farmers:

It is assumed that agricultural class has benefits from rising prices of agricultural products. But in case of India where 70 per cent of the farmers having marginal land are not able to consume the benefits of increased agricultural prices. Because they are compelled to sell their products in harvest period at lower prices. The benefits of higher prices of agricultural products are appropriated by big landlords.
and middlemen only. According to B.S. Mavinkurve agricultural sector had a very small share in the prosperity ushered by scarcity of commodities and money inflation. But this small share of benefits is appropriated mainly by upper strata of farmers who are in small quantity of the total agriculturists. On the other hand, farmers have greater loss in the falling prices. Some times in the period of bumper production in agricultural sector, prices fall down suddenly below the level of cost of production also. Therefore, small farmers face the economic loss.

6. Black Marketing and Speculation:

Black marketing and speculation in various sectors of economy is also an effect of fluctuations in agricultural prices. When the inflationary situations prevails in the market, the speculation and malpractices take place by traders and businessmen due to scarcity of supply and defective marketing control. These factors push up agricultural prices. These malpractices mostly begin in the godowns of both traders and manufacturers and not in fields of agriculturists. It indicates that black marketing and
speculation are done by traders and industrialists, and benefits of these malpractices are absorbed only by them.

6. Lack of Regional Integration of Agricultural Market:

Due to irregular fluctuations in prices of agricultural products their price level differs from region to region in the country. It is known as regional price disparity. Sometimes the disparity in prices is greater than cost of transportation and other handling costs. It reveals the lack of regional integration among agricultural markets. Due to this the degree of marketed surplus is irregular and hence it changes from one region to another. The benefits of regional price disparities are appropriated by big traders and businessmen. They purchase larger quantities of agricultural products in the region where the prices are lower and sell in the region where prices are higher. The export of agricultural products and ultimately earning of foreign exchange are also affected by regional disparities in agricultural prices. According to D.R. Gandgil, uniformity in agricultural prices is essential factor to attain an integrated development of
national economy. He said that the price differentiations from one region to other region should not be higher than reasonable transportation and other costs.

7. Effects on Distribution of Land and Capital:

One of the important problems in under-developed countries is that of optimum allocation of resources like land and capital, which are scarce in nature. Due to limited supply of land and capital it is most necessary to allocate these factors as per social preferences. In the presence of irregular and improporionate fluctuations in prices of agricultural products we cannot attain optimum allocation of land and capital between foodgrains and cash crops, among different foodgrains, between agricultural products and non-agricultural products, etc. A larger share of resources is shifted to that sector where prices are higher and more stable. Generally there is negative relation between price fluctuations and shifting of resources.

Allocation of land under different crops depends on the prices of agricultural products. High price level of any agricultural commodity attracts the
larger area under that crop. Sometimes relative prices of competing crops also affect the area under a crop.

8. Cyclical Fluctuations between Price and Production:

Rise and fall in agricultural production and that in agricultural income (prices) do not synchronise. Unevenness in price movements is a fundamental cause of instability in agriculture. Agricultural production is a prolonged process. There is no coincidence between change in prices and change in production. It requires time-lag. This situation generates cyclical fluctuations in prices and production and is difficult for the agriculturists to break this cycle. Cohen R.L. has discussed this type of fluctuations as "the initial favourable prices stimulate an increase in output when the resulting larger supplies come to market, prices fall. Farmers decide to contract output and again after a time-lag prices rise. The continued existence of this cycle besides necessitating certain relationship between the elasticities of demand and supply, assumes that farmers do not learn from this experience that there will be a cycle."
9. Change the Producer's Share in Consumer's Rupee:

The producer's share in consumer's rupee differs in peak and lean periods due to fluctuations in agricultural prices. It is found that producer's share in consumer's rupee is low in peak marketing period and high in lean period. A large number of farmers sell maximum quantity in peak period when producer's share is the minimum, and a smaller quantity is sold in lean period when producer's share is maximum. It indicates that the farmers particularly small and marginal farmers have to bear financial loss in both peak and lean periods.

10. Effects on Government Budget:

Agricultural price variations and mainly foodgrains price variations have effects on Government budget also. In developing countries a significant part of budget is devoted to salaries of employees. When foodgrains prices rise, the Government is forced to pay compensatory dearness allowances. So by reducing investment from productive agricultural sector, Government has to divert the amount for payment of higher salaries to employees to maintain their living standards. Further, it induce to increase the Government
expenditure and also money supply which results in
inflationary trend in the economy.

**Meaning of Price Stabilisation:**

We have seen various adverse effects of violent price variations of agricultural products on the different sectors of economy, various classes of society, rural and urban population, etc. It is essential to remove the irregular price variations and adopt a suitable price stabilisation policy. Because the success of agricultural development programme depends on the stabilised agricultural prices. But the question is: What is price stabilisation? Price stabilisation does not mean holding a specific line where prices are strictly bounded. Price stabilisation means to prevent the wider movements in prices between a limit of minimum and maximum price levels, to protect the interests of producers and consumers. When the prices are steeply rising due to inflationary pressure, prices should be checked at a maximum level, to protect the consumers. On the other hand, when prices fall down unexpectedly, they must be regulated at a minimum level to protect the producers. Keeping the price movements between a minimum and maximum price levels is called
price stabilisation.

Though the concept of price stabilisation is considered in a wider sense, there are various aspects to this concept.

The stabilised price level must be consistent with the economic growth of the country and related to growth of population and income also. It means the change in prices of any sector must keep pace with the change in prices in other economic sectors and with the general price level. The Government cannot adopt any arbitrary price policy for price stabilisation. Price stabilisation does not mean freezing the prices at a certain level. In short-run pegging the prices at a fixed point may be a part of price stabilisation programme. But in long run with continuous process it is essential to have a slowly rising trend of prices. According to Kaldor, slowly and steadily rising trend in prices in all over the economy is a powerful factor which help to attain a steady economic growth. So slowly rising trend in prices is one of the aspects of price stabilisation policy.
The concept of price stabilisation is not one sided. Stabilisation of agricultural prices must be accompanied with the prices of other commodities, e.g., prices of manufactured and semi-manufactured products. Prices of these products also must be stabilised at such a level where farmers can obtain advantages. However, the stabilised price policy is a subject of revision.

In a wider sense price stabilisation of agricultural products must be related to stabilised income and stabilised wages not only those of in agricultural sector but the workers of non-agricultural sector also. Because it also induce to increase agricultural productivity. In the technical words of Shepherd G. "the objective in stabilising prices is not to slow up or block the operation of law of supply and demand in the open market, but help them function better in the short-run".

**Need of Price Stabilisation:**

Taking into account agricultural prices as a basic element of economy, violent fluctuations in prices is also a basic obstacle in economic development. In a broad sense, without stabilisation of agricultural prices it is not possible to have a steady economic growth and income equality. Different types of
agricultural problems and particularly problems of small farmers can not be solved without having attained price stabilisation. Agricultural price stabilisation is not essential only for agricultural development but to attain various objectives of national economic policy. The following points indicate the need of stabilising agricultural prices.

1. To Raise Money Income of Small Farmers:

Money income of farmers depends on the difference between what he obtains for his products and spends as to obtain it. This is nothing but profit margin which he obtains. This depends on prices of output and cost of production. This profit margin is seriously affected by price fluctuations. Therefore, from the point of view of the farmers there is an urgent need of price stabilisation. From the point of view of small farmers price stabilisation is most essential, because they belong to lowest income group of society and are indebted. According to R.V.Rao, the agriculturists are suffering in both inflationary and deflationary situations. The farmers can benefit only by arresting fluctuations in agricultural prices.
Therefore, stabilisation of agricultural prices as a policy of stabilisation of farmers' incomes is an effective way to overcome this sufferer.

2. To Protect the Consumer's Interest:

Need of price stabilisation is not only for small farmers but for consumers also. Standard of living of consumers depends basically on agricultural prices and prices of other consumer goods. Standard of living also fluctuates with fluctuating prices of these commodities. It is essential to protect the consumers and particularly price vulnerable class of society, because purchasing power of this class is limited. The rising trend of agricultural prices has spelt misery of these poor people and their standard of living steeply fall down. There is need of stable prices to maintain standard of living.

3. Uncertainty in Agricultural Industry:

Agricultural sector is mostly dominated by nature which is out of control of farmers. There is high risk and uncertainty in agriculture. The production in agricultural sector depends on the mercy of monsoon. In
most of the years it remains unfavourable to agriculture. This brings uncertainty in agricultural production and also in income of the farmers. This uncertainty in agriculture can partly be reduced through stabilisation of agricultural prices.

4. To Adopt New Agricultural Technology:

Agricultural production and productivity depend on the technology adopted by the farmers. Improved agricultural technique is a key factor which helps to increase agricultural productivity. But the farmers and mostly small farmers are unable to use this improved technique due to low level of income and high fluctuating prices. So the farmers must have assurance of remunerative and stable prices to their products. It requires effective price stabilisation policy.

5. For Rapid Industrialisation:

Agriculture and industrial sector are closely related to each other. Any change in agricultural sector has reflections on industrial sector. If the prices of food articles increased, it leads to rising trend in industrial sector, through increase in wage rate and cost of raw materials, and ultimately total cost of
production. It generates a vicious circle in the economy. The path of industrialisation in the country becomes more difficult in the absence of price stabilisation of agricultural products. A special price policy is necessary to minimise price fluctuations and to promote industrialisation.

6. For Equal Distribution of Foodgrains:

In free market economy there is more possibility of speculation and hoarding of agricultural products and mainly of foodgrains. As a result, there is possibility of artificial scarcity of foodgrains, and further unexpectedly prices go up. There are three aspects to equal distribution of foodgrains, (1) between surplus states and deficit states, (2) between the surplus producers and non-producing consumers, and (3) between different income groups. There is price disparity between the surplus states and deficit states. Generally prices of foodgrains are relatively lower in surplus states than that in deficit states. It is not beneficial either to producers in surplus states or to consumers in deficit states. It further generates malpractices in the economy. Equal distribution of foodgrains among different income groups, and among
different states (surplus and deficit states) can be achieved by having effective price stabilisation policy.

7. To Attain Sectoral Balance:

One of the most important objectives of price stabilisation policy is to keep a reasonable relationship between the prices of agricultural commodities and manufactured articles. It is most essential to have 'balanced growth' as an objective of national policy. If prices of industrial products rise up relatively more than agricultural prices, the term of trade goes against agriculture. It means industrialists get more benefit of higher prices than agricultural sector and vice versa. Price disparities in these sectors generate sectoral imbalance in the economy. It is possible to attain sectoral price parity through effective price stabilisation policy.

8. To Check Inflation:

The development process generally gives rise to the problem of inflation mostly in developing countries. Sometimes it is difficult to control the rising trend of prices. It generates various types of
problems related to income distribution, standard of living of poor people, capital formation, investment, value of money, etc. The Foodgrain Policy Committee (1943) stated that stabilising prices of foodgrains is a powerful anti-inflationary measure.

9. Benefits to Government:

Government itself also have various advantages from price stabilisation policy. Due to stable prices farmers get assurance of their incomes. As the income is assured, it will be easier for the farmers to pay land revenue, water charges, repayments of loans, etc. As a result, financial position of Government becomes more strong and Government will be in a position to undertake various productive programmes and projects in agricultural sector.

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